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FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC 0281
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RUEATRS/DEPT OF TREASURY WASHDC
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHKO/AMEMBASSY TOKYO 2580
RUEHBJ/AMEMBASSY BEIJING 5468
RUEHBY/AMEMBASSY CANBERRA 3131
RUEHUL/AMEMBASSY SEOUL 4987
RHEHNSC/NSC WASHDC
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 02 JAKARTA 001875

SENSITIVE
SIPDIS

DEPARTMENT FOR EAP/MTS, EAP/EP, EEB/IFD/OMA
TREASURY FOR M.NUGENT AND T.RAND
COMMERCE FOR 4430 BERLINGUETTE/KELLY
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO FOR CURRAN
DEPARTMENT PASS EXIM BANK
SINGAPORE FOR S. BAKER
TOKYO FOR MGREWE
USDA/FAS/OA YOST, MILLER, JACKSON
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USTR WEISEL, EHLERS

E.O. 12958: N/A

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SUBJECT: Indonesia Stock Exchange Suspends Trading

¶1. (SBU) SUMMARY: On October 8, the Indonesia Stock Exchange Jakarta halted trading after the Jakarta Composite Index plunged 10.38%. The rupiah, which had strengthened in early trading following Bank Indonesia's October 7 rate hike, closed weaker, down 0.3% to 9593/USD. Domestic bond prices continued to reflect significant volatility. In response to continued market volatility, the Ministry of Finance issued an announcement that the government of Indonesia had decided to cancel the government bond auction scheduled for October 14 and the remaining scheduled government bond auctions through the end of 2008, as the government sought to create a more stable and conducive market situation. END SUMMARY.

STOCK EXCHANGE HALTS TRADING, AFTER FALLING MORE THAN 10%

¶2. (SBU) The Indonesia Stock Exchange halted trading at 11:06 a.m. local time following a 10.38% drop (on top of the nearly 12% drop from the previous two days). The action was taken by Exchange management after consultations with Fuad Rahmany, Chairman of the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) and with brokers. Rahmany advised press that the action to suspend trading was justified, given the Jakarta Composite Index's drop of more than 20% in three days. Embassy contacts at Bapepam confirmed that the halt in trading was a discretionary decision of the exchange after consultations with Bapepam, rather than triggered by automatic circuit breakers. Indonesia Stock Exchange regulations (no. Kep-565/BEJ/11-2003) permit Exchange Board of Directors to approve halting trading if the main index decreases by at least 10% from the previous day's close. Embassy understands Exchange officials are meeting with market participants this evening to determine whether to extend the suspension to October 9.

¶3. (U) Indonesian firms which experienced significant drops included PT Astra International, Indonesia's largest auto retailer, which tumbled 20%, and PT Indosat, the nation's second-biggest telephone company, which fell 23%. Both fell on concerns slower global growth will erode domestic consumption. PT Adaro Energy, Indonesia's second-largest coal producer, fell 19%.

14. (U) On October 7, the Indonesia Stock Exchange suspended trading in shares of six Bakrie group firms following large declines of between 25% and 40% on October 6. The firms, owned by the family of State Minister for People's Welfare Aburizal Bakrie, represent about 6% of the Indonesian Stock Exchange in terms of market capitalization. The reportedly highly-leveraged firms, including Bumi Resources (coal) and Bakrie Sumatra (palm oil), have been hit hard by falling commodity prices. On October 8, a PT Bakrie & Bros. spokesperson denied rumors that there had been forced sales of shares of its subsidiaries pledged as collateral, blaming the drop on global illiquidity and market irrationality. According to press reports, the president director of the Indonesia Stock Exchange said trading in the shares had been suspended "because there is too much unclear information about them circulating in the market and we need to clarify it with them." We have not yet been unable to obtain additional details regarding the legal basis of the suspension of trading in these shares.

FINANCE MINISTRY CANCELS BOND AUCTIONS

15. (SBU) The Ministry of Finance announced the cancellation of further government bond auctions in 2008. In a press statement, the Ministry advised that the government would optimize government expenditures to reduce the budget deficit so that it would not need to access the bond market. The government noted it could open bond auctions again if that market stabilized. IMF resident representative Milan Zavadjil confirmed that the government intends to reduce the 2008 budget deficit to no more than 1.3%. If budget realization reaches 95%, Zavadjil believes the government will be

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able to cover the deficit without further borrowing, given huge revenue over-performance in 2008 to date.

16. (SBU) A resident technical assistance advisor at the Ministry of Finance told us that the Ministry of Finance will postpone the global sukuk planned for late October/early November. The Finance Minister is currently in the Gulf meeting with potential buyers of the sukuk. Feedback from the "buy side" will certainly influence any decision regarding re-scheduling this issuance, which the advisor said could easily happen within a week of such a decision. Resrep Zavadjil also noted that the GOI may try to go directly to sovereign wealth funds in order to seek financing, in addition to the interest they have expressed in attempting to source a greater share of financing - preferably on concessionary terms -- from bilateral or multilateral institutions.

BANKING LIQUIDITY, DOLLAR FINANCING

17. (SBU) Local banking contacts have told us that they are experiencing problems in obtaining dollar financing. Resrep Zavadjil, however, advises that local currency liquidity appears adequate, though a number of banks which have aggressively extended credit may face individual challenges.

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